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INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT INTERNATIONAL MONETARY FUND INTERNATIONAL FINANCE CORPORATION

September 29, 1959

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STATEMENT BY THE HON. ROBERT B. ANDERSON, SECRETARY OF THE TREASURY AND GOVERNOR OF THE FUND FOR THE UNITED STATES, AT THE DISCUSSION OF THE FUND'S ANNUAL REPORT

It was to be expected that the Annual Report of the Fund would point to evidences that the past year was one of great advance in several important phases of the economy of the Free World. The first evidence is the sharp upswing of industrial production in the United States and renewed expansion in other industrial countries. Second, is the continued very substantial growth in gold and foreign exchange reserves of those other industrial countries. Third, is the move to external convertibility, which signaled the end of the postwar period of inconvertibility and its accompanying comprehensive exchange restrictions.

However, the Fund Report also calls attention to the less satisfactory experience of many of the less developed countries. I agree fully with the Report that the difficult problems with which these countries have had to deal make it all the more to their credit that so many of them have taken steps to introduce or maintain comprehensive stabilization programs. All of our countries, whether industrialized or underdeveloped, face common problems arising out of the pressure of demand on economic resources, and all of us, as financial officials, are engaged in an unending struggle to contain the destructive forces of inflation.

We are glad to note that the Fund has continued to play an important role. The fact that the Fund has been ready and able to assist in the maintenance of convertibility undoubtedly was an important encouragement to the countries which made formal moves during the year. At the same time the Fund has continued to give technical advice and financial support to countries which have been planning or intensifying their stabilization efforts. Use of the Fund's resources by these countries was substantial. For many of them, however, stand-by arrangements with the Fund were as important or even more important than the actual use of Fund Resources.

There is sometimes a tendency to refer to the stabilization programs with which the Fund is associated as if they were something which the Fund devised and sought to impose on one or another member country. I am sure that this view is not held by my fellow Governors. The desire to achieve and maintain stability in the economy and a sound currency as the reliable basis for economic development must arise within the country itself. If it does not, and if in consequence this objective does not have the support of all major sectors of public opinion--responsible business and labor leaders, consumers and public officials--the efforts of the Fund to extend either technical advice or financial support are unlikely to be successful. I have noted with interest the discussion of this subject which appears at the end of Chapter II of the Report. For us in the United States Government it is encouraging to observe the effective collaboration between the Fund and a number of the member countries, and I am confident that over the years this alliance between Fund and members in the effort to provide a sound financial basis for economic expansion will be one of the most important activities of the Fund.

A year ago at the meeting in New Delhi I had the pleasure of introducing a resolution looking to an increase in the resources of the Bank and the Fund, and the great satisfaction of finding that the resolution met with the unanimous support of the Boards of Governors. Now, a year later, we can note with real pride that the Executive Boards have presented their reports, the Governors have virtually unanimously approved the proposed resolutions, and the required percentages of actual participation in the increase in resources have been exceeded. This has been an outstandingly successful international cooperative effort to increase the pool of resources available to the Fund and to increase the capacity of the International Bank to make loans.

This year the United States is proposing consideration of the establishment of the International Development Association as a desirable additional means of providing capital for the economic development of the Free World.

In his address the Managing Director of the Fund has commented on two aspects of Fund policy which are of very real interest to us in the United States Government. One of these, which is also mentioned in the Annual Report, relates to discrimination in trade and payments. During the first decade after the war, currency inconvertibility was very widespread and, for most of that period, was severe. Under those circumstances it was to be expected that countries would husband their earnings and reserves in convertible currencies. This resulted, of course, in massive discrimination against the countries having convertible currencies--discrimination which extended to imports of goods and to various so-called invisible transactions, such as tourist travel and remittances. Although these discriminatory arrangements affected the trade of the United States, we concurred in the Fund's policy of sympathetic toleration of them pending the time when inconvertibility would give way to convertibility at least among the major currencies.

This time has come and it has been accompanied by, and in considerable part made possible by, a very substantial improvement in the balance of payments positions of the other industrial countries and by large increases in their reserves. In our view, the countries which no longer suffer from inconvertibility in their current international receipts do not have any

balance of payments justification for discriminatory restrictions--that is, there is no reason for these countries to favor imports from non-dollar countries over those from dollar countries. We have been very much gratified by the substantial progress which countries have made in reducing and eliminating discriminatory restrictions. But it has to be said that discrimination against the trade of dollar countries is still substantial, and that it applies to commodity trade and some other transactions, especially the freedom of tourists to obtain funds to travel wherever they wish. We consider that it is most important for the Fund to declare its position on this matter clearly and forcefully. This would be shown not only by the actions of individual countries but by the Fund itself in the weeks following this Annual Meeting. This is of particular concern to the collaboration between the Fund and the GATT.

The Managing Director has mentioned that many countries have reached the point where they soon will no longer need to avail themselves of the transitional privileges of Article XIV, which deals with restriction on payments and transfers in international transactions, and will accept the obligations of Article VIII. We agree with this view, and we also agree with him that it is time for the Executive Board of the Fund to examine the several important questions of policy connected with Article VIII which will need clarification as a guide to the many member countries still operating under Article XIV.

I should like now briefly to review some of the economic and financial developments in the United States during the year. The Annual Report gives considerable attention to the United States and I appreciate the objective way in which the developments in my country have been analyzed. We in the United States Government keep always in the forefront of our minds that our economy is a very large one and that what happens here, whether good or bad, is of concern for other countries of the Free World. At the same time, however, I agree with the line of analysis in the Annual Report pointing to the steady strengthening of the European economies in recent years and to the substantial and autonomous economic power and influence of the Western European economy in world affairs.

The main purpose of the United States in the financial and economic field is to maintain a strong and expanding economy on both the domestic and international fronts. Only economic strength can support a steadily rising standard of living for the people of the United States and only through economic strength can the United States play its proper role in the defense of the Free World and in assisting the underdeveloped countries of the world, to whom economic advance is so vital.

To maintain and enlarge the economic strength of the United States we rely on a few main lines of policy. These include, first, a sound fiscal position which will both avoid inflation and meet the very large expenditures at home and abroad which the United States Government must undertake. Second, firm and yet flexible monetary policies aimed at achieving and maintaining stable purchasing power for the dollar and an adequate basis for large and growing savings. Third, maintenance of competitive private enterprise and high employment opportunities within the framework of sound social and economic policies. Fourth, improvement of our technology and production efficiency so that we can expand our markets at home and abroad.

Corrected: September 29, 1959

Turning to the balance of payments position of the United States, the present situation is this. The excess of exports of United States goods and services over our imports is currently running at the rate of about $3 billion per year. This excess is not sufficient to meet three large categories of out-payments by the United States which in the aggregate amount to about $7-1/2 billion a year. There is a difference of roughly $4-1/2 billion. Some of these out-payments are directly associated with and add to our exports; others bear a much more indirect relationship to our trade. But their over-all effect is to provide foreign countries with substantial net receipts of dollars.

One of these three large out-payments by the United States consists of military expenditures abroad, which have been running over $3 billion in recent years. The second is net U.S. Government grants, loans and other capital outflow of about $2-1/2 billion a year. The third is the outflow of private capital which amounts to $2 billion or more per year. Despite heavy demands on our savings at home, reflected by rising interest rates, we are making substantial amounts of these savings available to underdeveloped countries. Moreover, large contributions to the defense of the Free World are an important part of the international policy of the United States Government and of all of the Free World.

The resulting large payments deficit or difference of about $4-1/2 billion is accounted for mainly by foreign gains of gold, dollar holdings, and both short-and long-term foreign investments in the United States. It is our hope that this large payments difference will be reduced by increases in our commercial exports of goods and services relative to our imports of them. But, while we will put emphasis on strengthening our capacity to export, we cannot be unmindful of other factors and therefore we will also keep our whole international financial position under review.

The U.S. dollar is a reserve currency. In our modern monetary and exchange systems, the role of a reserve currency is essential, and it is natural that foreign central banks and treasuries as well as private persons and institutions abroad should hold dollars in substantial amounts. This means that while it is, of course, in our own interest to keep the strength of the dollar beyond question, we must also be aware of the interest of other countries which rely on the dollar as a reserve currency.

It is, however, important also to look at the world payments situation as a whole and not at the position of the United States alone. In 1958 the other industrial countries of the Free World had a substantial payments surplus not only with the United States but also with the less developed members of our institutions. These surpluses substantially exceeded the long-term financing made available by these countries to the rest of the world. That is to say, their net exports were substantially greater than the financing which they provided to cover them, resulting in an unusually large addition to liquid holdings of foreign exchange, on both official and private account. A similar situation has continued in 1959. This large excess of exports over the outflow of capital does not represent a satisfactory pattern of world payments, and cannot be expected to persist.

The passage of time changes circumstances and these changes continually force upon us all the need to review our policies. Following World War II, when many countries were suffering from the ravages of war and when their foreign exchange reserves were very low, the principal policies of the United States in the foreign financial and economic fields were designed to assist in rebuilding economies and to strengthen currencies. But now there has been a restoration of the relative competitive positions of the other industrial countries of the Free World. No longer is the United States the dominant supplier of capital goods and other manufactures. The other industrial countries have improved their own financial positions. This means that there is no longer a justification for the discriminatory practices of the earlier period of their economic and financial weakness. Finally, the changed circumstances of the industrial countries ought to put at rest any unfounded idea that the economic problems of the Free World are based either on a shortage of dollars or on a general lack of liquidity.

What we must recognize is that we are confronted today not with a dollar shortage, but with a capital shortage. The demand for capital is high in all countries, both industrial and underdeveloped. But on a comparative basis, there is in the underdeveloped countries a strong and pressing demand for long-term funds from countries with high savings to supplement their own savings, so as to accelerate the pace of economic development. This demand for capital need not be satisfied by any one currency, but by all convertible and usable currencies. We in the United States will not shirk any part of our responsibility to help in this situation. But I believe that examination of the recent past shows that financing by the United States has exceeded the amount of its net exports of goods and services and that other industrial countries have generally financed less than their exports of goods and services. There must be a reorientation of the policies of the earlier postwar period and a new determination by all the industrial countries to face the common obligation to share in the task of providing capital to the less developed parts of the Free World.

Turning now to the domestic side, I am very glad to be able to report, as does the Annual Report itself, that the year since we met in New Delhi has been one of continued economic upsurge in the United States. By June, just prior to the steel strike, industrial production had reached 6 per cent above the pre-recession peak. Gross national product is currently running about $485 billion per annum compared with $442 billion in the year before the recession. Moreover, this dramatic and rapid increase in economic activity has been achieved with substantial price stability. Since the beginning of recovery in May 1958, the broad index of wholesale prices has shown no net increase, while consumer prices have risen only 1 per cent.

The fiscal position of the United States, which is a major factor in our attempts to stabilize prices, has shown a notable improvement. Following the large deficit of $12-1/2 billion in the fiscal year ended June 30, 1959, the United States Government has made great efforts to restore a balanced budget in the current fiscal year. My report to you on the state of affairs in the United States would be less optimistic were I not able to state that this objective appears to have been

substantially attained. In this achievement we have faced the difficulties common to many countries in the world today, who must postpone or curtail some government expenditures in order that financial stability may be maintained.

The credit and monetary policies of the United States, including our firm policy of maintaining unchanged the present official price of gold, have also been directed toward promoting financial stability in the interest of sustainable economic growth. The present business boom, which has carried production, employment and incomes to record high levels, has resulted in a rising tide of demand for bank credit from many sources. This has been reflected, of course, in sharp increases in market rates of interest and in appropriate increases in rediscount rates. Yet a large volume of new bank funds has been made available to finance the growing needs of business, as indicated by an increase of $9-1/2 billion in loans and investments of all banks during the 12 months through August, and an increase in the money supply during that period of $4 billion.

In summary, I can say that the outlook for the economy of the United States is good. We have contained the inflationary pressures which were running strong a year ago. Our budget position is sound. The purchasing power of the dollar has held virtually unchanged over the past year. Output and employment and incomes are at record high levels. Expanding world markets provide us an opportunity to increase our exports.

In all these vital matters of fiscal affairs, currency stability, expanding output, and a sound balance of payments, we in the United States Government support the same sound position as do the Governments represented around this table. Firm policies and vigilant and energetic execution of those policies are essential. The task of achieving sustainable growth and reasonable currency stability is never completed.